

NONCOAL
(August 1986)
SAMPLE ONLY

M/023/007

State of Utah
Department of Natural Resources
Division of Oil, Gas and Mining
3 Triad Center, Suite 350
355 West North Temple
Salt Lake City, Utah 84180-1203
(801) 538-5340

COLLATERAL BONDING AND INDEMNITY AGREEMENT

THIS COLLATERAL BONDING AND INDEMNITY AGREEMENT entered into by and between North Lily Mining Co. (hereinafter referred to as "Operator") and the Utah Division of Oil, Gas and Mining (hereinafter referred to as "Division"),

W I T N E S S E T H

WHEREAS, the Operator has obtained Program Permit No. M/023/007 (hereinafter referred to as "Permit") from the Division to conduct mining and reclamation activities at the Tintic Project in Juab - County, Utah, as a mine under the Utah Mined Land Reclamation Act, Utah Code Annotated, 40-8-1, et seq, 1953, as amended ("Act") and implementing regulations; on the disturbed areas designated in Exhibit A; and

WHEREAS, the Operator wishes to obtain a bond under 40-8-14(3); and

WHEREAS, the Operator has provided a(n) Certificate of Deposit issued by First Security Bank of Utah (Exhibit B), naming the Division as Beneficiary, as collateral to secure this Collateral Bonding and Indemnity Agreement; and

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NOW, THEREFORE, in consideration of the premises and other good and valuable consideration, the sufficiency and receipt of which is hereby acknowledged, the Operator does hereby agree to be held and firmly bonds to the Division for the sum of \$115,000.00 (1991 year dollars) for the timely performance of reclamation responsibilities for Permit No. M/023/007 in lawful money of the United States. By the submission of this Certificate Of Deposit (form of collateral will and truly binds itself, its successors and assigns, jointly and severally, by the conditions of this Agreement.

The conditions of the above obligations are such that:

1. The Operator shall perform all duties and fulfill all requirements applicable to mining and reclamation as set forth in the Act, and regulations adopted pursuant to the Act and the conditions of Permit No. M/023/007 issued by the Division.
2. The liability under this Agreement is conditioned upon successful reclamation of the permit area as provided in the Mining and Reclamation Plan for Permit No. M/023/007 for a period of time and in the manner specified in the Act and regulations adopted pursuant thereto as amended from time to time, and the conditions set forth in Permit No. M/023/007 issued by the Division.

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3. The Operator does hereby jointly and severally agree to indemnify and hold the Division harmless from any claim, demand, liability, cost, charge or suit brought by a third party, as a result of the Operator's failure to abide by the term and conditions of the Mining and Reclamation Plan as set forth in Permit No. M/023/007 and from any failure to comply with the terms of this Agreement.
4. Upon successful completion of part or all of the obligations secured hereby, the Operator may petition the Division for a final release of part or all of the obligations under this Agreement. Upon such petition, the Division shall timely conduct an inspection to ascertain whether the duties and obligations of North Lily Mining Co. under the Act, regulations adopted pursuant thereto and Permit No. M/023/007 have been fulfilled. If such duties and obligations have been fulfilled, the Division shall release the Operator from part or all of its obligations under this Agreement and shall file notice of such release of collateral held by the Division.
5. This agreement shall be reviewed periodically by the Division, or reviewed upon petition by the Operator, in accordance with the Act and implementing regulations and

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the amount of liability under this agreement may be adjusted upon written agreement between the Operator and the Division where it is clearly established that the cost of future reclamation has materially changed.

6. This Agreement may be terminated upon ninety (90) days prior written notice to the Division if terminated by the Operator or upon ninety (90) days written notice to the Operator if terminated by the Division. Upon such written notification, the Operator will have ninety (90) days to obtain an alternate form of bond to secure reclamation obligations for Permit No. M/023/007 in the same amount as stated in this Agreement or amendments thereto.
7. Failure to provide a satisfactory alternative form of bond will result in the complete cessation of all mining operations and the complete reclamation of all disturbed areas within the Tintic Project Mine permit area.
8. Any breach of the provisions of paragraph #8 of this Agreement will result in the payment of \$ 115,000.00 (bond amount) liquidated damages to the Division.
9. This Agreement will be governed and interpreted according to Utah law.

SO AGREED this 15th day of March, 1988.

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State of Utah)

County of Utah)

On the 16th day of March, 1988, personally appeared before me Joseph C. Milbourne, the signer of the within instrument, who duly acknowledged to me that he executed the same.

Larry Brandon

Notary Public

Commission Expires: 4/10/88

Residing at: Santaquin, Utah

North Lily Mining Company
851 Traeger Ave., Suite 320
San Bruno, California 94066

By Joseph C. Milbourne
Joseph C. Milbourne Vice President
Corporate Officer - Position

STATE OF UTAH, DEPARTMENT OF
NATURAL RESOURCES, BOARD OF
OIL, GAS AND MINING

By Gregory P. Williams
Gregory P. Williams, Esq.
Chairman, Board of
Oil, Gas and Mining

APPROVED AS TO FORM:

Assistant Attorney General

STATE OF _____)

COUNTY OF _____)

ss:

On the _____ day of _____, 198____, personally appeared before me _____ and _____ who

being by me duly sworn did say that he/she, the said _____

_____ is the _____ of _____

_____ and said instrument was signed in behalf of said corporation by authority of its bylaws or a resolution of its board of directors and said _____

and _____ duly acknowledged to me that said corporation executed the same.

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Notary Public
Residing at: _____

My Commission Expires:

STATE OF _____)
COUNTY OF _____) ss:

On the _____ day of _____, 198____, personally appeared before me Gregory P. Williams, Esq. who being by me duly sworn did say for himself, that he, the said Gregory P. William, Esq. is the Chairman of the Board of Oil, Gas and Mining, Department of Natural Resources, state of Utah, and she duly acknowledged to me that said Division executed the foregoing document by authority of law on behalf of the state of Utah.

Notary Public
Residing at: _____

My Commission Expires:

Deposit Receipt This is not a certificate of deposit.
NOT TRANSFERABLE

**First Security Bank
of Utah**

Issued at (Office) Payson	City and State Payson, Utah	Office Number 048	Product Code 155	Account Number *****92,522.67***
Received of State of Utah Dept. of Natural Resources		Date March 15, 1988	Amount *****92,522.67***	
Division of Oil, Gas, and Mining		(Owner(s))	Interest Rate 7.750	Frequency of Rate Change Fixed
The sum of Ninety-Two Thousand Five Hundred Twenty-Two and 67/100 dollars		Maturity Date March 15, 1991	Term 3 Yr	
This deposit is subject to the terms and conditions stated on both sides of this Deposit Receipt and the Deposit Conditions of the same.		Automatic Renewal YES	Notice Period N/A	
Interest Rate and Frequency of Rate Change. If the interest rate on this deposit is subject to change during the term of the deposit, the frequency of change is shown. Interest is calculated on a simple interest basis and paid quarterly unless shown otherwise on the Deposit Conditions.		Social Security or Tax ID Number		
Automatic Renewal. If automatic renewal is shown, this deposit shall be renewed for successive identical terms at each maturity date, at the then prevailing interest rate, unless payment is requested by the registered owner(s). This deposit is payable only to the registered owner(s) upon proper identification acceptable to the bank.				

No interest will be paid after maturity — substantial penalty for early withdrawal may apply.

Received by

Authorized Signature

Kathy Brandon

THIS RECEIPT NOT TRANSFERABLE

RECEIPT FOR ITEMS LEFT FOR SAFEKEEPING

No 11305

Date: **March 16, 1988**

WE HEREBY ACKNOWLEDGE RECEIPT FROM

North Lily Mining Company

(Hereinafter Referred to as the Depositor)

OF THE FOLLOWING ARTICLES PLACED IN THIS BANK FOR SAFEKEEPING:

Certificiate made payable to State of Utah

Dept. of Natural Resources Division of Oil, Gas, & Mining in the amount of 92,522.67 Payable on March 15, 1991 as per State of Utah written request.

The depositor hereby acknowledges that the value of said property does not exceed \$ *****115,000.00*****. In accepting the custody of the above described articles this bank assumes the responsibility, with respect thereto, of a gratuitous bailee only, which limitation of responsibility is hereby assented to by the owner and depositor thereof.

It is understood in the event of the death of the depositor of the above described valuables that the bank shall hold such deposit in compliance with the inheritance tax laws of the state in which this bank is located until the same has been released by the proper state officer.

Present this receipt when you wish to withdraw the above articles.

By *Kathy Brandon*

851 Traeger Street, Suite 320
San Bruno, CA 94066
(415) 742-0133
FAX: (415) 742-0411

RECEIVED
MAR 25 1988

North Lily Mining Company

DIVISION OF
OIL, GAS & MINING

March 23rd, 1988

State of Utah Natural Resources
Oil, Gas and Mining Division
355 W. North Temple
3 Triad Center, Suite 350
SALT LAKE CITY, UT. 84180-1203

Attention: Messrs. L.P. Praxton/David Wham
Mineral Resource Development and
Reclamation Program

Dear Sirs,

RE: APPROVAL OF RECLAMATION SURETY

North Lily Mining Company would appreciate a calling of a special board meeting by the directors of Oil, Gas and Mining for the approval of the reclamation surety to be submitted on behalf of the Tintic Project, Juab County, Utah.

Thank you for your attention to this matter. I look forward to receiving your response in the very near future.

Yours sincerely,



DOUGLAS K. LEE
Vice President.